

Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 IGA-01 STR-04 DODE-00

PM-03 H-02 L-02 NSC-05 PA-01 PRS-01 SS-15 AGR-05

SAB-01 /092 W

----- 035385

R 060929Z MAY 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 6545

INFO AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMCONSUL JERUSALEM

C O N F I D E N T I A L TEL AVIV 2696

E.O. 11652: GDS

TAGS: EFIN, IS

SUBJ: GOI'S BUDGET FOR FY 1975/76; FURTHER

EMBASSY COMMENT

REF: A. TEL AVIV A-68 APRIL 16, 1975 (NOTAL)

B. TEL AVIV 2538 (NOTAL)

1. MOST STRIKING ASPECTS OF BUDGET ARE DEGREE TO WHICH
IT IS DEPENDENT ON USG AID (19 PERCENT OF TOTAL REVENUES)
AND INFLATIONARY IMPLICATIONS DESPITE GOI'S PROFESSED
ANTI-INFLATIONARY POLICY. REGARDING LATTER, GOI'S PROPOSED
INCOME TAX REFORM HAS ALREADY CAST DOUBT ON BUDGET'S
REVENUE ESTIMATES BECAUSE IT WOULD RESULT IN
REDUCED REVENUES OF IL 2 BILLION (\$333 MILLION). WHEN
ADDED TO BUDGET'S UNCOVERED DEFICIT OF IL 1.5 BILLION
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(\$250 MILLION), A GAP FOR WHICH GOI DOES NOT HAVE ANY

PLANS TO FINANCE, EVEN WITH BORROWED FUNDS, INFLATIONARY IMPLICATIONS COULD BE OMINOUS. BUT PLANNED IMPLEMENTATION VALUE ADDED TAX DURING FY 1975/76 COULD BE USED TO OFFSET IN PART LOSS OF REVENUE CAUSED BY INCOME TAX REFORM. SUPPLEMENTARY BUDGETS HAVE BECOME VIRTUAL TRADITION AND WILL ALMOST CERTAINLY BE FORTHCOMING IN LATER PART OF YEAR.

2. BUDGET PROJECTS FOREIGN LOANS AND GRANTS OF IL 13.350 BILLION (\$2.225 BILLION) WHICH TOTAL 24 PERCENT OF TOTAL PROJECTED REVENUES, OF WHICH USG LOANS AND GRANTS AMOUNT TO IL 10.488 BILLION (\$1.748 BILLION), OR ALMOST 19 PERCENT OF TOTAL REVENUES (SEE TABLE 4 REF A). US LOANS TOTAL IL 5.520 (\$920 MILLION) DIVIDED BETWEEN MILITARY CREDITS IL 5.070 (\$845 MILLION), PL 480 IL 150 MILLION (\$25 MILLION), AND AID HOUSING GUARANTEE IL 300 MILLION (\$50 MILLION). MILITARY CREDITS ARE DISBURSEMENTS UNDER 1973 EMERGENCY SECURITY ASSISTANCE PROGRAM. PL 480 AND HOUSING GUARANTEE PROGRAMS ARE AT SAME LEVELS PROJECTED BY GOI IN BLUE PAPER, BUT NOT APPROVED IN ENTIRETY BY USG. USG GRANTS AMOUNT TO IL 4.968 (\$828 MILLION), INCLUDING IL 1.950 (\$325 MILLION) SUPPORTING ASSISTANCE AND IL 3.018 (\$503 MILLION) FROM 1973 EMERGENCY SECURITY ASSISTANCE. THUS, OF TOTAL USG LOANS AND GRANTS OF \$1.748 BILLION, ONLY PL 480 AND HOUSING GUARANTEE FUNDING NOT COMPLETELY AUTHORIZED (OF \$25 MILLION PL 480 AND \$50 MILLION HOUSING GUARANTEE PROJECTIONS, AGREEMENTS OF \$9 AND \$25 MILLION RESPECTIVELY ALREADY SIGNED AND SHOULD BE DISBURSED IN FY 1975/76. THEREFORE, \$1.707 BILLION, OR ALMOST 98 PERCENT OF TOTAL USG ASSISTANCE INCLUDED IN BUDGET, IS AVAILABLE TO GOI. THERE HAS RECENTLY BEEN A GREAT DEAL OF SPECULATION (REF B) ON IMPACT IN ISRAEL IF US ASSISTANCE FALLS SHORT OF GOI REQUEST. AS INDICATED ABOVE, US RESPONSE TO GOI REQUEST FOR AID WILL NOT HAVE APPRECIABLE EFFECT ON PRESENT, BUT ON NEXT GOI FISCAL YEAR BUDGET.

VELIOTES

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